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December 3, 1996

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DEC 3 - 1996

Secretary of Communications  
Division of Secretary

**Ex Parte**

Mr. William F. Caton  
Acting Secretary  
Federal Communications Commission  
1919 M Street, NW  
Room 222  
Washington, DC 20554

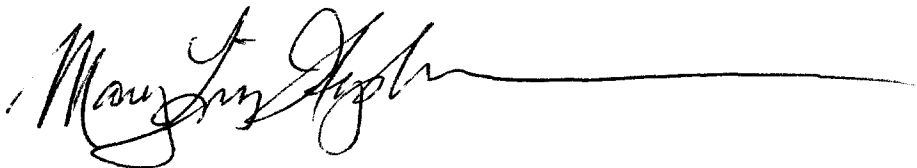
**Re: Universal Service - CC Docket No. 96-45**

Dear Mr. Caton:

Yesterday, Frank Gumper, representing NYNEX, sent a letter to Commissioner Chong together with a service list and attachments, regarding the item captioned above.

Any questions on this matter should be directed to me at either the address or the telephone number shown above.

Sincerely,



Attachment

cc: Commissioner Chong

No. of Copies rec'd  
List ABCDE

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**NYNEX**  
1111 Westchester Avenue, White Plains, NY 10604  
Tel: 914 644 7511  
Fax: 914 694 5541

**Frank J. Gumper**  
Vice President, Federal Regulatory Planning

**NYNEX**

**December 2, 1996**

**The Honorable Rachelle B. Chong, Commissioner  
Federal Communications Commission  
1919 M Street, N.W., Room 844  
Washington, D.C. 20554**

**Dear Commissioner Chong:**

**NYNEX held a meeting with Chairman Hundt and several members of his staff shortly after the Joint Board issued its Recommendation on Universal Service. The purpose of the meeting was to discuss several areas, most of which had little to do with the Joint Board Recommendation. However, as part of that meeting NYNEX did offer some early impressions of our reaction to the Joint Board Recommendation. Since the public notice requesting comments on the Joint Board recommendations had not been issued, NYNEX did not file an exparte regarding the meeting.**

**At NARUC, Commissioner Bob Rowe approached me indicating that he had heard that NYNEX had provided some interesting statistics to the Chairman and inquired whether he could get a copy of the material. I provided Commissioner Rowe with copies of the two items I thought he might be most interested in viewing. He asked whether this material was on the public record and I indicated that while we had not filed an exparte, I would provide the material to the rest of the Joint Board and file an exparte with the FCC.**

**Attached are the six pages I provided Commissioner Rowe, the first four indicate NYNEX's concern that the use of the proxy model to determine high cost funding implies a desire to identify and establish universal service funding at areas below the wire center i.e., census block groups. Given the availability of unbundled network elements at averaged rates this could create significant forms of arbitrage in which companies could acquire the unbundled network elements from the incumbent LEC at averaged prices, request that the incumbent LEC put the elements together in order to provide the underlying service and then seek Universal Service funding from the high cost fund. The last two charts indicate NYNEX's view that the Joint Board recommendation to use gross revenues net of carrier payments as the revenue base for determining contributions shifts an unreasonable burden to the LEC industry. We also expressed our concern that the Joint Board recommendation provided no discussion of how the telecommunication carriers who are required to contribute to the Universal Service fund are in fact going to collect those monies from their customers, particularly if contributions are based on intrastate revenues.**

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The last chart indicates that NYNEX's contribution to a series of funds totaling eight billion dollars could be as much as six hundred million dollars a year.

While we will develop these concepts more completely on December 16th filing with the FCC, if any of you wish to discuss these particular items in more detail please feel free to give me a call on (914) 644-7511.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "John J. Sullivan".

Attachment

**The Honorable Rachelle B. Chong, Commissioner  
Federal Communications Commission  
1919 M Street, N.W., Room 844  
Washington, DC 20554**

**The Honorable Susan Ness, Commissioner  
Federal Communications Commission  
1919 M Street, N.W., Room 832  
Washington, DC 20554**

**The Honorable Julia Johnson, Commissioner  
Florida Public Service Commission  
2540 Shumard Oak Blvd.  
Gerald Gunter Building  
Tallahassee, FL 32399-0850**

**The Honorable Kenneth McClure, Commissioner  
Missouri Public Service Commission  
301 W. High Street, Suite 530  
Jefferson City, MO 65101**

**The Honorable Sharon L. Nelson, Chairman  
Washington Utilities and Transportation Commission  
P.O. Box 47250  
Olympia, WA 98504-7250**

**The Honorable Laska Schoenfelder, Commissioner  
South Dakota Public Utilities Commission  
State Capitol, 500 E. Capitol Street  
Pierre, SD 57501-5070**

**Ms. Martha S. Hogerty  
Public Counsel for the State of Missouri  
P.O. Box 7800  
Jefferson City, MO 65102**

# Joint Board Recommendations

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## ■ Proxy Model

- The ultimate model adopted by the FCC should include geographically defined areas that are consistent with the geographic areas used for unbundled elements, access, and retail rates.
- Inconsistent geographic areas will result in arbitrage.

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# Necessary Linkage between Universal Service and Network Elements

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**Universal Service = Network Elements plus Retail Costs**

a) Network Elements = Loop  
Port  
Local Switching (500-700 MOUs)  
Transport and Terminating Access  
Access to E911, Operator Services  
and Directory Assistance

b) Retail Costs = State Approved \$ per line to  
Cover Customer Care Costs for  
Basic Service

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## Example of inconsistent deaveraging of Universal Service support and unbundled elements.

UNBUNDLED ELEMENTS		
Zones	Areas	Average BCM2 Cost/Month*
1	Rural	\$38.42
2	Rural/Suburban	\$25.38
3	Suburban	\$22.04
4	Urban	\$20.12

\*Assume retail costs of \$4.00/month

UNIVERSAL SERVICE COSTS		
<i>Range of costs for individuals wire centers within Zone 1:</i>		
Wire Centers	Cost/ Month	Line Served
MILTON	\$23.98	12,415
ROME	\$26.78	27,951
GREENFIELD CENTER	\$48.91	4,914
BRAINARDSVILLE	\$124.70	1,010
ST. REGIS FALLS	\$122.92	1,251
PUTNAM	\$149.54	482

**Gaming Opportunity: target high cost wire centers within a zone.**

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## There is Important Linkage Between Unbundled Network Elements and USF Support:

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- Geographical deaveraging should be the same.
- For Universal Service Costing, Joint Board should specify reasonable number of zones in state (2-4)
  - Urban
  - Suburban
  - Rural
- Wire Center, Census Block Group -- administrative nightmare

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# Funding the USF

Method	Industry (%)			NYNEX
	LEC	IXC	Other	
Retail Revenue Less Residence Local	38	50	12	4.9
Retail Revenues	47	43	10	6.1
Gross Revenue Less Carrier Payments	63	25	12	7.8

If Total Fund = \$8 Billion  
NYNEX Share \$400 - \$600 Million

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# Joint Board Recommendations

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## Concerns:

### ■ Cost Recovery

- Not addressed in the Joint Board's recommendation
- Customer "surcharge" most reasonable mechanism

### ■ Method of calculating carrier payments

- NYNEX proposal use of retail revenues less basic residence local service revenues
- Joint Board proposal results in disproportionate burden on LECs

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